

TO THE SHAREHOLDERS

The closing comment in last year's report, "the purpose of your directors — a profitable and encouraging year for both agents and staff, and a reasonable return for the shareholders' investment", has been partially attained. Although inflation in Canada has been restrained, the current rate together with the critical increases of the previous four years and the unprecedentedly high awards by courts has necessitated further adjustments to the provisions for outstanding claims of prior years. Such increases in claim costs for former years have substantially affected the current year results.

During 1976 a concerted effort resulted in the reduction of the number of outstanding claims. Continuing vigilance on the part of personnel to bring claims to an equitable settlement as quickly as possible will give improved and more accurate results in succeeding periods.

Planned corrective measures taken have made it possible to re-establish an underwriting profit. This underwriting profit, with the income from investments, has resulted in a net income before taxes of \$2,069,288.

The paid-in capital was increased during the year by the final instalments related to the rights issue offered in 1975. The total paid-in capital, including the contributed surplus, is \$2,164,556, which, with retained earnings, provides a shareholders' equity of \$9,639,690 as at December 31, 1976.

After an absence of six years, a modest dividend of fifty cents per share has been declared payable to shareholders of record February 7, 1977.

The Company was brought under the enforcement provisions of the Anti-Inflation Act and Guidelines, effective April 15, 1976, for its property and casualty business. It is unfortunate that an industry which suffered historically high losses during the acute inflationary period of 1973, 1974 and 1975 should be restrained from replenishing its depleted equity. The insurance industry, controlled by governmental regulations and disciplined by competition, does not have "excess revenue" but rather, a correcting of prior years' losses. Should a return to high inflation occur with a continuance of the Anti-Inflation Act provisions, the effect on the solvency of many fire and casualty insurance companies could be catastrophic.

We are indeed fortunate to be supported by a staff exemplary in the industry, whose conduct and efficiency are reflected in the support of a valued agency force. It is with confidence that your directors approach the coming year.

G.A. Savage
President

AUDITORS' REPORT

To the Shareholders of
The Guarantee Company of North America

We have examined the balance sheet of The Guarantee Company of North America as at December 31, 1976 and the statements of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Canada
February 22, 1977

THORNE RIDDELL & CO.
Chartered Accountants

DIRECTORS

G. A. SAVAGE
President

PIERRE COTE
President — Laiterie Laval Limitée

FRANK COWAN
President — Frank Cowan Company Limited

ROBERT H. COWAN
Director — Frank Cowan Company Limited

BRUNO DESJARDINS, Q.C.
Partner — Simard & Desjardins

DANIEL O'C. DOHENY, Q.C.
Partner — Doheny, Mackenzie, Grivakes, Gervais &
Le Moyne

J. H. KENNEDY
Vice-President & General Manager — Frank Cowan Company
Limited

W. J. MILHAUSEN,
Partner — Marani, Rounthwaite and Dick

G. W. MILLAR
Chairman of the Board — Beclawat Ltée/Ltd.

LYLE E. WELLS,
Executive Vice-President — Frank Cowan Company Limited

OFFICERS

GEORGE A. SAVAGEPresident & Chief Executive Officer

FRANK COWANExecutive Vice-President

BRUNO DESJARDINS, Q.C.Executive Vice-President

DOUGLAS M. CHADWICKTreasurer

DOUGLAS R. SMITHSecretary

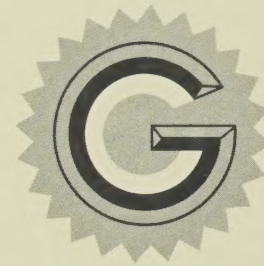
ARAM SEMERJIANVice-President and Asst. Gen. Mgr.

J. ANDRE LAPIERREVice-President

BERNARD SOUCHEREAUVice-President

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Y GUARANT



THE GUARANTEE COMPANY OF NORTH AMERICA

1976 ANNUAL REPORT

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FIDELITY AND SURETY BONDS PROPERTY AND AUTOMOBILE INSURANCE

THE COMPANY THAT INTRODUCED FIDELITY INSURANCE TO NORTH AMERICA

INCORPORATED STATUTES OF CANADA 1851 • FEDERALLY LICENSED 1872

BALANCE SHEET AS AT DECEMBER 31, 1976
(with comparative figures for the preceding year)

STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 1976
(with comparative figures for the preceding year)

NOTES TO FINANCIAL STATEMENTS
December 31, 1976

	1976	1975
ASSETS		
Cash and short-term investments	\$ 1,584,110	\$ 855,112
Accounts receivable		
Accrued investment income	361,873	310,366
Agents	3,526,517	3,170,282
Other insurers	445,806	808,910
Other		328,490
Prepaid expenses	38,340	44,754
	<u>4,372,536</u>	<u>4,662,802</u>
Long-term investments (note 1)		
Bonds and debentures	9,035,770	11,577,011
Shares	18,949,961	10,984,571
Mortgages	109,244	133,214
Real estate	211,118	214,951
	<u>28,306,093</u>	<u>22,909,747</u>
Fixed Assets		
Office furniture and equipment, at cost	298,069	282,092
Less accumulated depreciation	210,287	188,341
	87,782	93,751
Leasehold improvements at amortized cost	17,217	24,628
	<u>104,999</u>	<u>118,379</u>
Deferred premium acquisition costs (note 2)	2,206,456	2,017,164
	<u>\$36,574,194</u>	<u>\$30,563,204</u>
LIABILITIES		
Accounts payable		
Other insurers	\$ 320,033	\$ 434,313
Premium taxes	198,289	73,236
Income taxes	11,603	82,232
Other	847,831	303,061
	<u>1,377,756</u>	<u>892,842</u>
Unpaid claims	13,044,525	10,826,989
Unearned premiums	11,032,282	10,085,820
	<u>25,454,563</u>	<u>21,805,651</u>
Deferred income taxes (note 3)	1,479,941	851,128
	<u>\$36,574,194</u>	<u>\$30,563,204</u>
SHAREHOLDERS' EQUITY		
Capital Stock (note 4)		
Authorized 200,000 shares at \$5		
Issued: Fully paid	187,147 (1975 - 151,527)	
Not fully paid	(35,620)	
	935,735	882,163
Contributed surplus (note 4)	1,228,821	982,391
Retained earnings (note 5)	7,475,134	6,041,871
	<u>9,639,690</u>	<u>7,906,425</u>
	<u>\$36,574,194</u>	<u>\$30,563,204</u>

	1976	1975
GROSS PREMIUMS WRITTEN	<u>\$26,513,929</u>	<u>\$21,512,567</u>
NET PREMIUMS WRITTEN	<u>\$22,904,492</u>	<u>\$15,362,976</u>
REVENUE		
Premiums earned	<u>\$21,476,031</u>	<u>\$15,257,481</u>
Investment income		
Bond and debenture interest and amortization (note 1)	982,188	577,480
Dividends	1,070,080	732,748
Losses on shares (note 1)	(319,164)	(250,424)
Mortgage income	10,756	12,966
Rental income	37,328	36,666
Other	8,721	9,447
	<u>1,789,909</u>	<u>1,118,883</u>
TOTAL REVENUE	<u>23,265,940</u>	<u>16,376,364</u>
EXPENSES		
Claims incurred	14,279,431	10,620,748
Commissions	4,249,272	3,715,204
Premium taxes	535,637	383,905
Other underwriting and administrative	2,047,279	1,026,916
Investments	85,033	68,901
Quota share expenses		505,795
	<u>21,196,652</u>	<u>16,321,469</u>
INCOME before income taxes	<u>2,069,288</u>	<u>54,895</u>
Income taxes		
Current	7,212	88,970
Deferred (reduction) (note 3)	628,813	(411,434)
	<u>636,025</u>	<u>(322,464)</u>
NET INCOME	<u>\$ 1,433,263</u>	<u>\$ 377,359</u>
Net income per share	<u>\$7.79</u>	<u>\$2.57</u>

STATEMENT OF RETAINED EARNINGS
YEAR ENDED DECEMBER 31, 1976
(with comparative figures for the preceding year)

	1976	1975
UNAPPROPRIATED RETAINED EARNINGS		
Balance at beginning of year		
As previously stated	\$5,673,352	\$5,351,682
Prior years' adjustment of deferred income taxes	(297,128)	(300,562)
As restated	5,376,224	5,051,120
Net income	1,433,263	377,359
	<u>6,809,487</u>	<u>5,428,479</u>
Transfer to guarantee bond reserve	195,333	52,255
Balance at end of year	<u>6,614,154</u>	<u>5,376,224</u>
APPROPRIATED RETAINED EARNINGS		
Balance at beginning of year	665,647	613,392
Transfer from unappropriated retained earnings to guarantee bond reserve	195,333	52,255
Balance at end of year	<u>860,980</u>	<u>665,647</u>
TOTAL RETAINED EARNINGS	<u>\$7,475,134</u>	<u>\$6,041,871</u>

1. LONG-TERM INVESTMENTS

The values stated for long-term investments are as follows:

- Bonds and debentures, having a cost of \$8,789,932 (1975 - \$11,406,386) and quoted market value of \$8,070,487 (1975 - \$10,175,691), have been accounted for on the "deferral and amortization" method. Under this method, realized gains and losses on disposals are deferred and amortized over the period to maturity of the security sold. The unamortized portion of the realized gain or loss is included in the amortized value of bonds and debentures.
- Shares, having a cost of \$20,200,419 (1975 - \$11,909,565) and a quoted market value of \$18,710,216 (1975 - \$9,789,206) have been accounted for on the "fair value" method. This method allows for a gradual movement towards current quoted market values, whereby the shares are valued on a five-year moving average of market values.
- Mortgages are accounted for on the same basis as bonds and debentures held as long-term investments.
- Real estate is stated at cost of \$266,864 (1975 - \$266,864), less accumulated depreciation of \$55,745 (1975 - \$51,913). This real estate is included under the caption of investments since its main purpose is one of investment. Depreciation on building has been calculated on the declining balance basis at a rate of 5 per cent.

Income from long-term investments has been accounted for as follows:

- Bond and debenture interest and amortization includes interest earned and amortization of discounts or premiums arising from purchases other than at par values and amortization of realized gains and losses on security disposals as described above.
- Losses on shares includes changes in fair values, as described above, and amounts received on disposal that are in excess of or less than fair values at the end of the preceding period.
- Rentals include an amount of \$13,656 (1975 - \$13,656) representing an occupancy charge in respect of space used by the company.

2. DEFERRED PREMIUM ACQUISITION COSTS

These represent agents' commissions, premium taxes and certain other underwriting expenses which relate directly to acquisition of premiums. These costs, to the extent that they are considered to be recoverable, are deferred and amortized over the term of the related premiums.

3. INCOME TAXES

Deferred income taxes account comprises the following:

	1976	1975
Deferred income tax credits arising from claiming for tax purposes acquisition costs on unearned premium	\$1,071,676	\$ 988,410
Deferred income taxes charge arising from 1975 loss carry-forward		(450,953)
Deferred income tax credits arising from claiming for tax purposes guarantee bond reserve	418,179	326,167
Deferred income tax charge arising from depreciation claimed in excess of capital cost allowances	(9,914)	(12,496)
	<u>\$ 1,479,941</u>	<u>\$ 851,128</u>

In addition the company has unrealized losses on long-term investments of \$1,004,620 (1975 - \$754,369), the tax effect on which has not been recorded in the accounts.

4. CAPITAL STOCK AND CONTRIBUTED SURPLUS

In 1975, the company received subscriptions for 53,427 shares at the subscription price of \$28, of which \$5 was capital and \$23 was credited to contributed surplus. The balance due on 35,620 shares at the end of 1975, was received during the year.

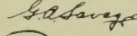
5. APPROPRIATED RETAINED EARNINGS

Appropriated retained earnings at the end of the current and preceding year consisted of a special reserve in connection with fidelity and surety guarantee bonds outstanding.

6. ANTI-INFLATION LEGISLATION

Effective April 15, 1976, The Guarantee Company of North America became subject to Federal Anti-Inflation Legislation which places restrictions on profit margins, dividends and employee compensation. The company believes that its operations for the year have been in conformity with the requirements of the Legislation and supporting regulations.

APPROVED BY THE BOARD:

Director 
Director 